

# SEQEL PARTNERS: White Paper

## THE FUTURE, OUR LEADERS: An emerging chasm in the New Zealand leadership market

### Executive Summary

Leadership is core to New Zealand business, the economy and our future. The leadership talent pool available to New Zealand enterprises is shrinking rapidly. The trends expose that attracting and retaining leadership talent will fast become an even greater challenge for New Zealand business.

- > A significant proportion of the NZ labour market - the Baby Boomers (those born 1947-1965) - will retire over the next 15 years. This group of prominent New Zealanders will increasingly step down from leadership roles or exit the labour market to become more lifestyle focused.
- > There are less people in Generation X - those below the Baby Boomers - to look to for leadership succession. A very substantial *leadership deficit of up to 40,000 people* will hollow out the leadership capability of New Zealand business.
- > Furthermore, leaders in Generation X are heading overseas in numbers exceeding 1500 per annum, taking their earning potential, qualifications and business acumen with them. There is a net migration loss of executive level talent each year - and there are not nearly enough people with the right experience coming through to replace this leadership deficit.

This paper looks at the issue of a fast emerging shortage of 35 - 50 year old educated and experienced people in the New Zealand economy, the very pool of people required to lead business on the exit of the Baby Boomer generation.

This potential leadership deficit of 40,000 means that, at the very least, there is a significant gap in numbers of these people compared to those in the 50 - 65 year age gap with relevant experience. Moreover, migrant figures will not fill the gap - because our migrants are not of the appropriate age, and for experience and cultural reasons are not quickly of value.

When the time comes to consider future leadership, the "who" and "where from" questions will continue to escalate in difficulty. Early acquirers and developers of leadership talent will be the winners.

### Our changing workforce

It is no surprise to hear that the New Zealand population is on the cusp of the most dramatic age related change in its history. This has widespread effects on the structure and demographic make up of our workforce, and, as importantly, the leaders able and willing to grow wealth, push innovation and increase competitiveness.

As the Baby Boomer generation of 350,000 workers retire over the next 15 years, Generation X (those born from 1964 - 1982) are not present in sufficient numbers to fill the leadership gap. The labour market is and will continue to become tight at the low end, and even more importantly the high end. Our leaders cannot be replaced by machines or computers. Over the next decade a

leadership vacuum will eventuate as a result of the aging of the Baby Boomer generation and their imminent retirement.

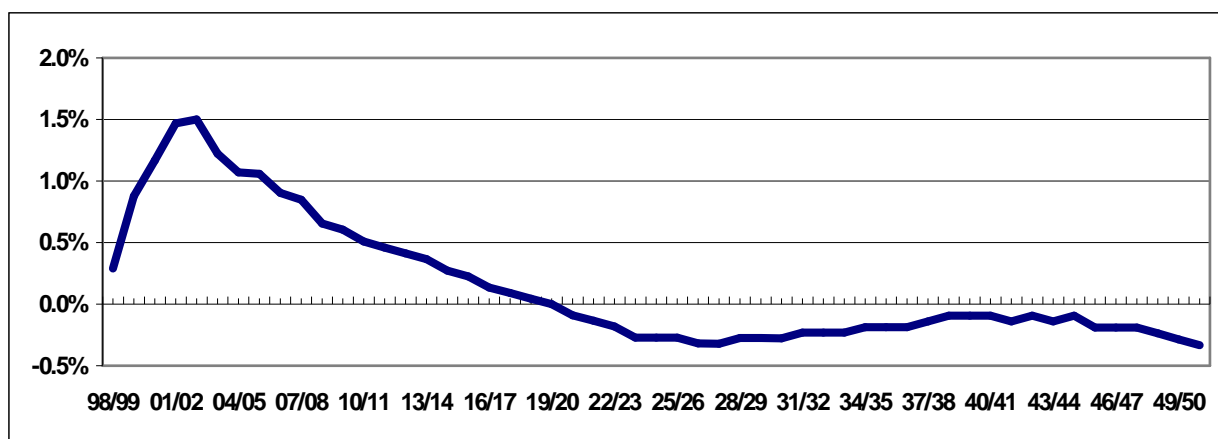
### Key Points

- > It is old news that the Baby Boomers are aging rapidly, selling their businesses and retiring - and that the 'graying' of New Zealand has well and truly begun
- > What is not always made clear is that in the successor labour market the pool of 35 - 50 year olds is stagnant or in decline. Over the next 10 years this will create a significant gap in workforce capability
- > There are insufficient people in the next generation to fully replace those exiting the target leadership market

## How fast is this change happening?

The effects of the Baby Boomers exit of the market generation can be seen very clearly by the following long run projection composed by New Zealand Treasury (Figure 1).

**Figure 1: New Zealand Labour force growth rate 1998-2007 (estimated) 2007-2050 (predicted)**



Source: Treasury New Zealand Figure 1.02

This projection shows an average reduction of 0.25% for 20 years, cumulating in a 7% decline in total labour force. Market factors such as automation, business consolidation and hollowing out of the economy will in part compensate loss of labour. But increasing globalisation will likely contribute to a leadership pool reduction - and leadership is a vital component of success.

### Effects:

- > The labour market will continue to become tighter and finding skilled labour, as well as general labour, will be an increasing challenge for business and employers - assuming continuing or growing levels of demand

## Our shrinking pool of leadership succession talent

A clear picture of the problem the market will face is illustrated by the trends presented below (Figure 2). The country is aging and the workforce across the board is in decline. Added pressure will be created as the pool of people in middle career (aged 35 - 50 years) shrink and are not present in sufficient numbers to replace those exiting (Figure 2).

**Figure 2 - The Target Market: Gen X - 35-50yrs old and qualified**

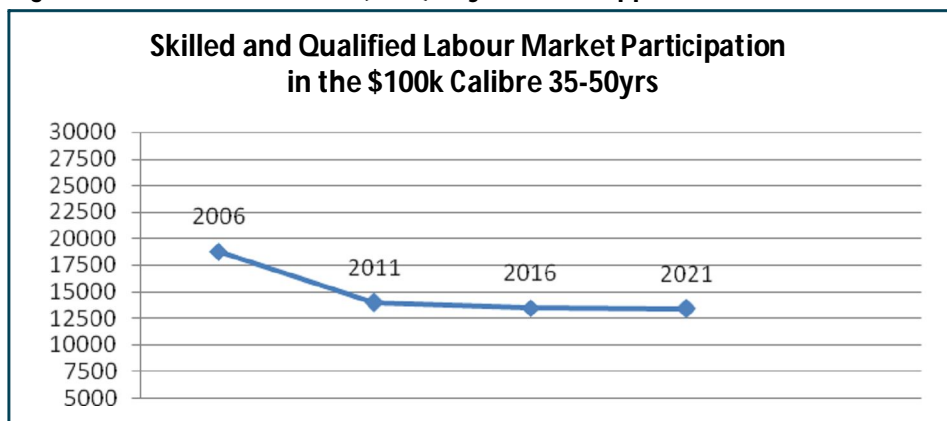


Source: Statistics New Zealand, 2006 (base) assuming medium variables.

Members of this leadership pool are Generation X (35 - 50 year olds) - generally university qualified graduates and are those most likely to succeed in management roles - they are the best placed people to fulfill the great and growing need for leadership at all levels of our organizations.

Figure 3 takes a close up look at this ideal leadership succession pool, those in the target age group who are qualified and in the top income earning demographic.

**Figure 3 Statistics NZ, 2006 (base) adjusted for approximated income brackets.**



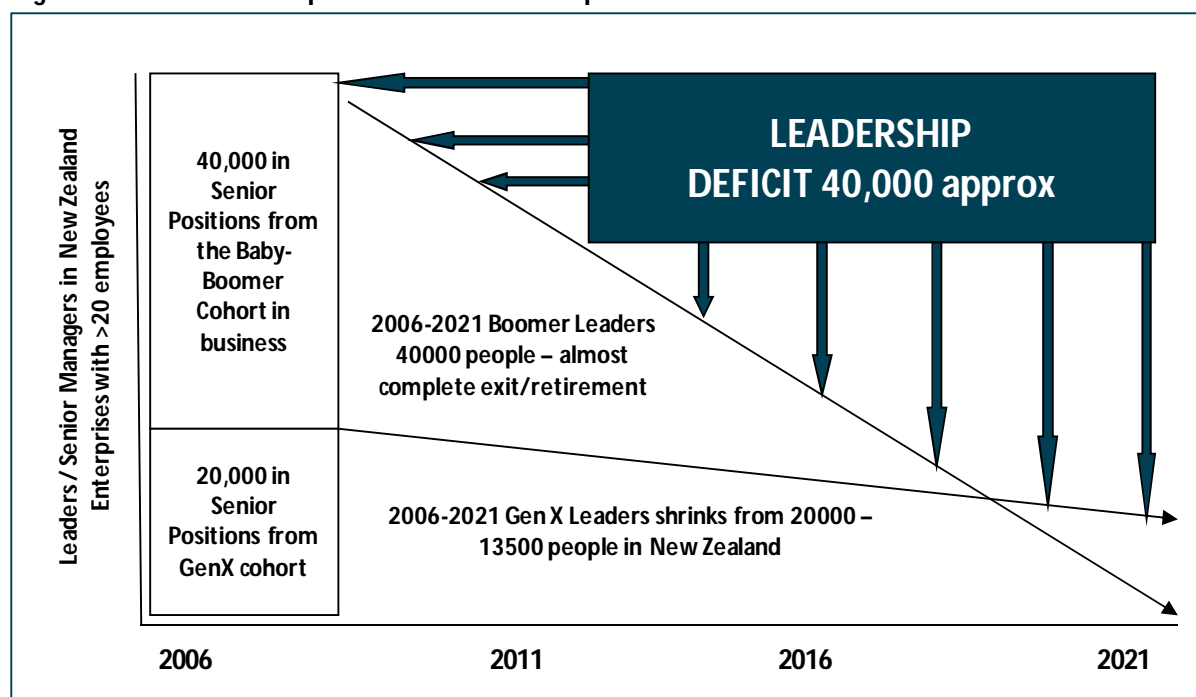
Source: Statistics New Zealand

**Effects:**

- > Over the next 5 years the existing leadership and management pool will reduce markedly and many of their likely successors will leave New Zealand
- > This will make it much more difficult to identify and recruit leaders
- > This target market is transient and subject to strong international demand
- > This is a very serious issue for New Zealand, especially for a large number of enterprises that allow New Zealand to compete and participate in the global economy

## How big is the problem?

Figure 4: The Leadership Deficit for our enterprises



### Data Breakdown:

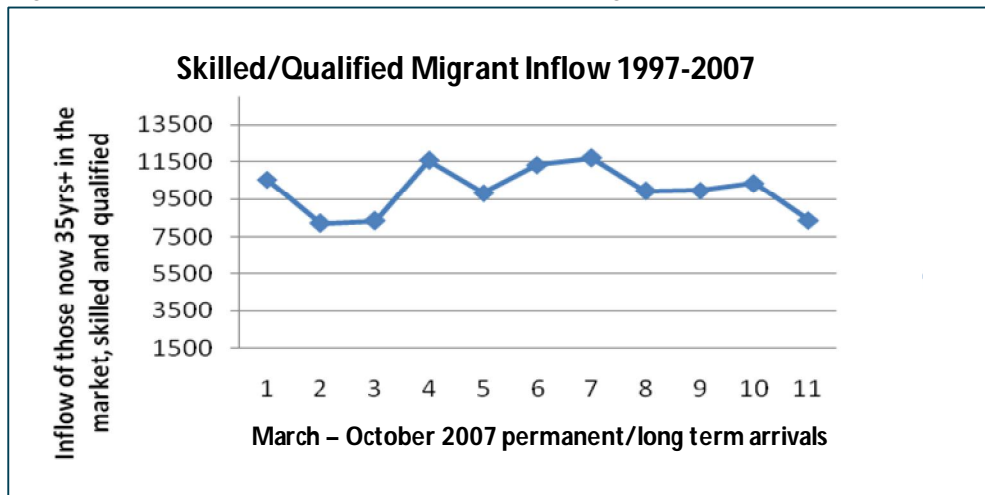
- > Using Statistics New Zealand data there are at present approximately 12,500 enterprises that employ 20 - 49, 50 - 99 or 100+ people
- > We base our assumption on the basis that enterprises employing 20-49 people have approximately 3 senior people inside their organisations within the Baby Boomer cohort
- > We have similar logic based assumptions for the larger enterprises. Thus:
- > 20 - 49 employed - 3 Senior Executives
- > 50 - 99 employed - 5 Senior Executives
- > 100+ staff - 12 Senior Executives
- > The total head count in the current enterprise leadership pool is approximately 60,000
- > Generation X cohort data is obtained by population assessment (both current and projected) adjusted for those with qualifications, net professional migrant outflow and top income bracket position (\$70K-\$100K+)
- > By 2021 all of the Baby Boomer cohort will have reached 65 years old (retirement age) and will be, if they have not already, transitioning out of work partially or completely
- > Most data sets assume net migration of 10,000 approx. However only a marginal proportion of this group are value add to the leadership labour market.

## How can we fill this Leadership Gap

### What about Migrant inflow?

What follows (Figure 5) is a measure of the inflow of skilled talent from 1997 to 2007. In particular, those who are now in the 35 - 50 age bracket or who will enter this age in the next 10 years in New Zealand, as an indicative trend.

Figure 5 - from Statistics NZ, Permanent and long term arrivals

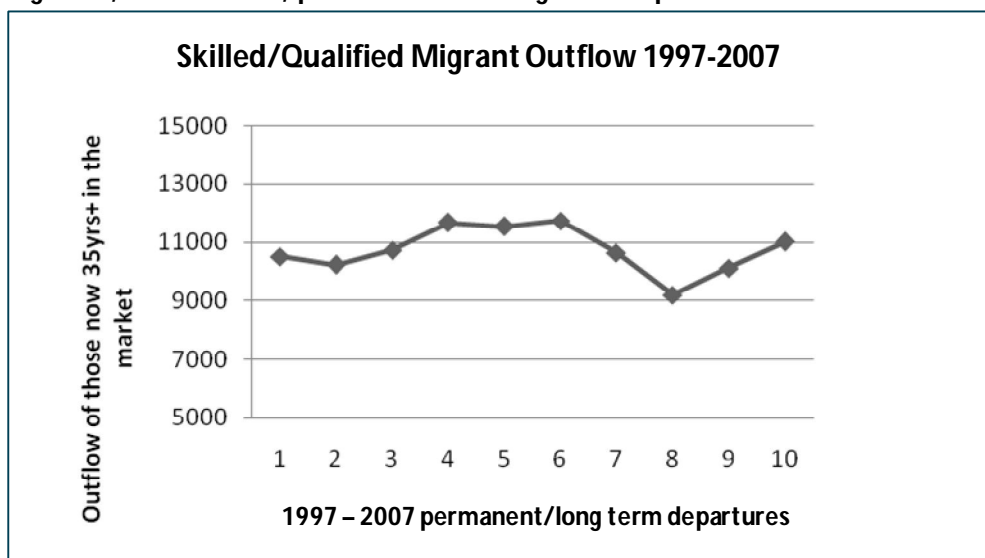


### Trend Analysis

- > Figure 5 illustrates a current 'flat' trend of migrant inflow. But these figures are for all immigrants in the Generation X age bracket. Of these only 20-25% are expected to be relevant to the leadership capable pool
- > This shows a net contribution, at best, of 2,500 professional/highly skilled and experienced migrants
- > This group will make a contribution, but they will not fill the leadership gap

## However Outflow is on the increase

Figure 6, Statistics NZ, permanent and long term departures.



**Effects:**

- > Matching outflow statistics with inflow trends shows a 1500+ net loss of skilled and qualified professionals/executive level individuals to other offshore markets
- > The basic statistics appear to periodically show a net migration gain. While this is technically true “across” the labour market, this is inclusive of people below and above the considered productive working age - so many of these immigrants are not contributive to the labour market
- > Moreover the so called ‘net gain’ does not reflect the huge outflow of business professionals, General Managers and Corporate Managers who head offshore. These departing New Zealanders are not being replenished with the equivalent inflow (Statistics NZ, Migration tables 9.02). This exacerbates the already significant boomer - Generation X leadership succession gap
- > There is a significant net loss of Managers, General Managers and Corporate talent to Australia, Canada, Asia, the United Kingdom and the United States of America. Consistent losses of these people in the thousands has been the trend for the last 8 years and has shown no sign of slowing, with present signals showing an outflow trend set to increase.

## Migration inflow will not address our lost leadership

### Importation of leadership: a question of culture and effectiveness

The assessment of labour market outcomes for a number of years after entry (such as income, participation, productivity, and employment) after taking into account differences in individual characteristics, found that immigrants were ‘less valuable’ than New Zealand born residents. British and American male immigrants were the only exceptions.

Being from an ‘English speaking’ background was found to be of the utmost importance when analyzing labour market outcomes for imported labour.

Educational qualifications are not often transferable among the immigrant workforce. Recent studies reveal that even after 5-10 years, immigrants with a similar qualification to New Zealand born or trained individuals were not employed to the same extent or to the same level<sup>1</sup>. Employment rates and employability are far lower among recent immigrants than for New Zealand born and educated individuals<sup>2</sup>.

New Zealanders will need to recognize, train, integrate and make more effective use of these immigrants to make some contribution to closing the leadership gap.

## Could our talented expatriates be the answer? Maybe, maybe not.

The KEA Network undertook a survey of its members and their findings<sup>3</sup> were revealed that our highest earners and our most qualified leaders are offshore and in no hurry to return home. KEA is connected to over 29,000 talented kiwis offshore in over 155 countries; they recently conducted a survey which had 11,000 responses.

### Our leaders are overseas

- > More than 30% of those surveyed were of working age (25-45 years) and earned above \$100K, putting them in the top income bracket for New Zealand. These are the top target market for leadership potential (note - currency values effect this comparison).

- > Over 80% of the responders had tertiary qualifications, compared with 35% of the New Zealand working age population being qualified in this manner
- > The New Zealand expatriate community is considered to be one of the most significant, in both size and talent, compared to almost any developed nation across the OECD<sup>4</sup>

#### **Why are our leaders offshore and not at home growing our economy?**

- > Reasons for moving offshore and staying abroad included employment prospects and economic conditions, followed by lifestyle, culture and excitement.
- > Almost 50% said they were not keen on returning to New Zealand for at least 5 years, and one fifth had been overseas for 10 years or more
- > The great majority (80%) of those surveyed by KEA are New Zealanders of working age (21-50).
- > This is an issue of national significance, needing a greater Governmental focus at the macro economic level.

To fulfill existing and future emerging leadership deficits it will become important to consider the more effective use and development of existing leadership capability. New Zealand also needs to create an environment which increases the inflow of talented Kiwi expatriates back to the domestic market.

### **Our Leadership gap, what does it mean for business?**

#### **Conclusions/effects:**

- 1) There is a large and potentially fast growing shortage of talent emerging in New Zealand. There are already insufficient leaders and managers that are qualified, of age, culturally best fit and ready to fill leadership and management roles. This will be significantly exacerbated as the prominent generation of Baby Boomers (born 1945 - 1965) exit from the labour market.
- 2) The position of New Zealand Inc is of growing concern. Emphasis must be placed on the retention and development of local New Zealanders. Efforts must be made to entice expatriate New Zealanders back home to increase living standards, grow wealth and exports and most critically to lead the next generation. These strategies alone are not the 'magic pill', but will be made effective through a significant market focus on the importance of leadership development and succession - and the influence of leadership on the prosperity of New Zealand Inc.
- 3) Quality leaders are required to manage and grow companies and to tackle the business challenges of the future. If New Zealand is to increase its innovation and international competitiveness and if we are, as a nation, seeking economic growth and global participation, then addressing leadership capability and effective succession is vital.

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<sup>1</sup> Boyd. C, 2003, *Migrants in New Zealand: An Analysis of Labour Market Outcomes for Working Aged Migrants Using 1996 and 2001 Census Data*, Department of Labour

<sup>2</sup> Ibid

<sup>3</sup> <http://www.keanewzealand.com/news/eoc-summary.html>

<sup>4</sup> Jean-Christophe Dumont (OECD) and Georges Lematre, *Counting Immigrants and Expatriates in OECD Countries: A New Perspective*, OECD, *Social, Employment and Migration Working papers*, summary published 2005. This study found that among developed countries New Zealand has the highest proportion (24%) of its skilled workforce living outside the country, and that New Zealand is second among developed countries for expats holding tertiary degrees

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- > 1926-2001 population summaries, so we know where we are at leading up to the present day (looking at those born 1960-1975)
- > A link to Treasury produced (using Stats NZ data) data: <http://www.stats.govt.nz/tables/ltds/ltds-population.htm>
- > ANZ Business Barometer, 2007, Survey on Privately Owned Businesses, ANZ Corporate Affairs, ANZ National Bank Ltd.
- > Boyd. C, 2003, *Migrants in New Zealand: An Analysis of Labour Market Outcomes for Working Aged Migrants Using 1996 and 2001 Census Data*, Department of Labour.
- > Department of Immigration
- > Figure 1.0 (collated with data sourced from Statistics NZ Series 5: Assuming medium fertility, medium mortality and long-run annual net migration of 10,000).
- > [http://www.hrinz.org.nz/Site/events\\_national/conferences/2006/Papers.aspx](http://www.hrinz.org.nz/Site/events_national/conferences/2006/Papers.aspx)
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- > Includes a suite of papers some with relevance to the scope of the project
- > Jean-Christophe Dumont (OECD) and Georges Lematre, *Counting Immigrants and Expatriates in OECD Countries: A New Perspective*, OECD, Social, Employment and Migration Working papers, summary published 2005. This study found that among developed countries New Zealand has the highest proportion (24%) of its skilled workforce living outside the country, and that New Zealand is second among developed countries for expats holding tertiary degrees.
- > KEA Network survey information, taken from a global survey exercise of kiwi expatriates <http://www.keanewzealand.com/news/eoc-summary.html>
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## Logic limitations and statistical assumptions

- > There are limitations to the data due to the ever changing nature of the labour market, cohort variables and margin of error. The following list presents statistical analysis undertaken in this study and the logic based calculations and assumptions around the data that emerged and eventually was featured. It needs to be acknowledged, as in all statistical analysis, there is a margin of error and projected or estimated data is exactly that. Trend analysis is where most of the assumptive conclusions are drawn.
- > Fig 1 assumes medium fertility, medium mortality and a net migration gain (general population) of 10000.
- > Fig 2 is with respect to Statistics New Zealand Labour Force Projections and is not based on skills, gender, income, ethnicity or any other factor other than age and projected participation in the New Zealand labour market in the time period specified.
- > Fig 3 is taken with respect to the Fig 2 age group, within the time period identified. It is adjusted for the number of people in this age bracket, based on Ministry of Education and TEC data (of current graduate levels, which were age specific data sets) and Statistics New Zealand data with respect to migrant student inflow. This data has been collated to show approximately how many individuals would be within the New Zealand labour market, between the ages of 35-50 years old, in the time period specified. The data set has been further adjusted to reflect actual and probable numbers of individuals in certain income brackets. The income rational was to reflect those people who are most likely to be able to assume major leadership and management roles. This is of course an adoption of a number of variables which considered qualifications to be the most useable and relevant available indicators. Thus a breakdown of current and projected \$70 - \$100K+ income earners was used, from Statistics New Zealand income bracket analysis.
- > Fig 5 and Fig 6 are both based on information obtained from Statistics New Zealand. These are long range projections and assume medium mortality, fertility and an average 10,000 net migration (+) per annum.
- > Fig 5 shows that while the trends between inflow and outflow are similar the current and emerging trend in the "skilled/professional" echelons is a developing net loss. Also what needs to be noted here, and what has shaped the thinking and in particular Fig 4, is a loss of approximately 1500-2000 skilled, working age, mostly English fluent, qualified, professionals, GM level, and corporate executives per year.
- > Fig 4 is a customized 'rich picture', which used a combination of established statistical analysis and logic based assessment. It uses enterprise data from Statistics NZ, "New Zealand in Profile", along with assumptions on senior management within the Baby Boomer generation, based on experienced advice.
- > Fig 4 is calculated from Statistics New Zealand data, and adjusted. It includes those in Generation X with qualifications, and those who will likely be in the top income earning brackets. The population and labour market projections are based on series 6 data (2006 base) from Statistics New Zealand - assuming medium mortality, medium fertility and a net migration gain of 10,000 per annum. This data set has been adjusted using permanent arrival and departure data sets obtained from Statistics New Zealand. These data sets are age and occupation specific. The assumption on qualification within the target market is reflective of their professional area, which would require formal qualification (executives, legal, science, government etc).

- > Figure 4 bases its senior management/leadership projections on part statistical fact, part time tested and experienced logic based assumption. The numbers of enterprises in the specified segments (20-49, 50-99 and 100+ employees) are verified and published by Statistics New Zealand. The logic based assumption is in the number of employees in both the Baby Boomer cohort, and the Generation X cohort inside these organizations. These are explained in the section entitled 'Data Breakdown' which immediately follows Figure 4.
- > Note also in Figure 4 a number of market assumptions have been made to more clearly illustrate the market leadership deficit. The graph shows the market remaining constant with respect to the number enterprises and numbers of each cohort as the variable in question. What cannot be taken into consideration is that there will be fluctuations among cohort numbers and the number of enterprises will vary. This may also condense given the expected aggregation of the domestic business market over time. The trend however, of the rise in retirees in the Baby Boomer generation and the relative shrinking of their 'ideal' successors in the age brackets 35-50 years old, remains constant, and is the essence of the Fig 4.

## Profile of the Authors

**Don Jaine** - Don is an experienced Executive Search and Management Consultancy practitioner with more than fourteen years experience in the sector. Don was a former commercial law Partner with both Simpson Grierson and Chapman Tripp, and originally a Partner of Patent Attorney firm Baldwins. Don brings in-depth commercial experience across a range of industries. Don moved into the Executive Search profession in 1995, identifying the opportunity to migrate the consultative business skills of corporate law into the Executive Search sector. He has helped identify and appoint hard-to-find leaders in sectors as diverse as Agribusiness, Distribution, Healthcare, Manufacturing, Services, Technology, Transportation and Utilities. Having achieved considerable success on his own account, Don established the New Zealand business of Swann Group in late 1999, before cofounding SEQEL Partners. Don is also a Director of several private companies and community organisations. Importantly, Don has established a reputation in New Zealand for achieving outstanding results in Leadership Transition interventions for successful privately owned New Zealand businesses. He has a LLB from Victoria University and is a qualified Patent Attorney.

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## About SEQEL Partners

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